Business

ELECTION 2010 BATTLE FOR BUSINESS telegraph.co.uk/election

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Greece commits to 'big sacrifices' as bail-out agreed

By Richard Fletcher
City Editor

GREECE committed to make swingeing budget cuts as it clinched support from eurozone finance ministers for a record €110bn (£95bn) bail-out.

Having won the backing of the finance ministers, the three-year loan package needs to be approved by a number of European legislatures, including those of Germany and France, before a full meeting of the eurozone leaders on Friday.

George Papandreou, the Greek prime minister, said the measures agreed at an emergency meeting of the cabinet were the "only road to save the country".

The plan signed off by the cabinet includes new budget cuts and tax rises of €30bn, which Mr Papandreou hopes will slash the public deficit to less than 3pc by 2014.

"With our decision today our citizens will have to make big sacrifices," he said.

The additional measures, which have the backing of the European Union and the International Monetary Fund, include:

- Scrapping bonus 13th and 14th month wages for public sector workers as well as for retired people from both the public and private sectors.
- Raising the retirement age for women from 60 to 65, bringing it in line with that for men.
- Raising the sales tax from 21pc to 23pc this year.

The IMF will contribute about a third of the loan package, with the eurozone countries providing the rest.

Mr Papandreou's announcement was accompanied by a mass demonstration in Athens, as unions voiced their dismay. Yannis Panagopoulos, president of the million-member strong GSEE union, said: "They are going to worsen the recession and plunge the economy into a deep coma. It's time to step up the social battle."

The package was welcomed by Angela Merkel, German Chancellor, who has been under intense domestic political pressure over the bail-out.

Mrs Merkel told reporters that "three months ago it would have been unthinkable that Greece would accept such tough conditions".

Germany is providing 28pc of the eurozone's contribution.

Greece's deficit reached 13.6pc of gross domestic product last year. The country faces an urgent need for help with €9bn of debts that are due on May 19. Eurozone leaders hope a deal will prevent contagion to other countries, including Spain and Portugal.

INSIDE

Roger Bootle: The IMF loans to Greece are just a sticking plaster B2

Ambrose Evans-Pritchard: Welcome to a German Europe B5

Obama turns heat on BP to halt spill

By Roland Gribben

BP CAME under even greater pressure from the US administration yesterday to step up efforts to control the Gulf of Mexico environmental disaster amid warnings that oil flowing from a ruptured well could reach 100,000 barrels or 4.2m gallons a day.

Ken Salazar, US interior secretary, led the critical chorus, declaring: "Our job basically is to keep the boot on the neck of [BP] to carry out the responsibilities they have both under the law and contractually to move forward and stop this spill."

The tougher line emerged as President Obama visited Louisiana to assess the risk to the regional economy and environment and demonstrate that he was adopting a "hands-on" approach to a crisis that threatens tourism, fishing and wildlife in three states bordering the Gulf.

The increasingly hostile mood in the Obama camp means BP – in the middle of an attempt to improve its US image after refinery safety failures – will come under closer scrutiny from the US administration and could face criminal prosecution. The Justice Department has told prosecutors to see whether any regulations have been breached.

BP has doubled the amount being spent on vessels, booms and other measures to halt the flow of oil to $6m (£3.9m) a day but is braced for a rash of compensation claims and legal action that could saddle the world's third-biggest oil group with a final bill estimated at anything between $2bn and $8bn.

Efforts to cap the well are concentrated on a quick-fix solution involving the installation of two domes in the next six to eight days and longer-term drilling of a relief well which is expected to take up to 90 days.

Tony Hayward, BP chief executive, has seconded 2,500 BP staff from engineers to lawyers to handle what could turn into the worst US oil spill and force President Obama to slow down an ambitious programme to open more offshore areas to oil and gas exploration and reduce dependence on oil imports.

US oil groups are co-operating in the spill-containment programme after Mr Hayward made personal calls to the heads of rivals. BP's efforts to tap US expertise has resulted in more than 150 companies playing a role in the exercise.

More than 5,000 barrels a day are estimated to be gushing to the surface and heading to the shore from the damaged wellhead in water 5,000ft deep, but Mr Salazar caused alarm by warning that in a "worst case scenario" the flow of oil could reach 100,000 barrels or more a day.

He said there was "no doubt" that the blowout preventer on the Deepwater Horizon rig, which should have automatically halted the flow of oil after the explosion, was defective.

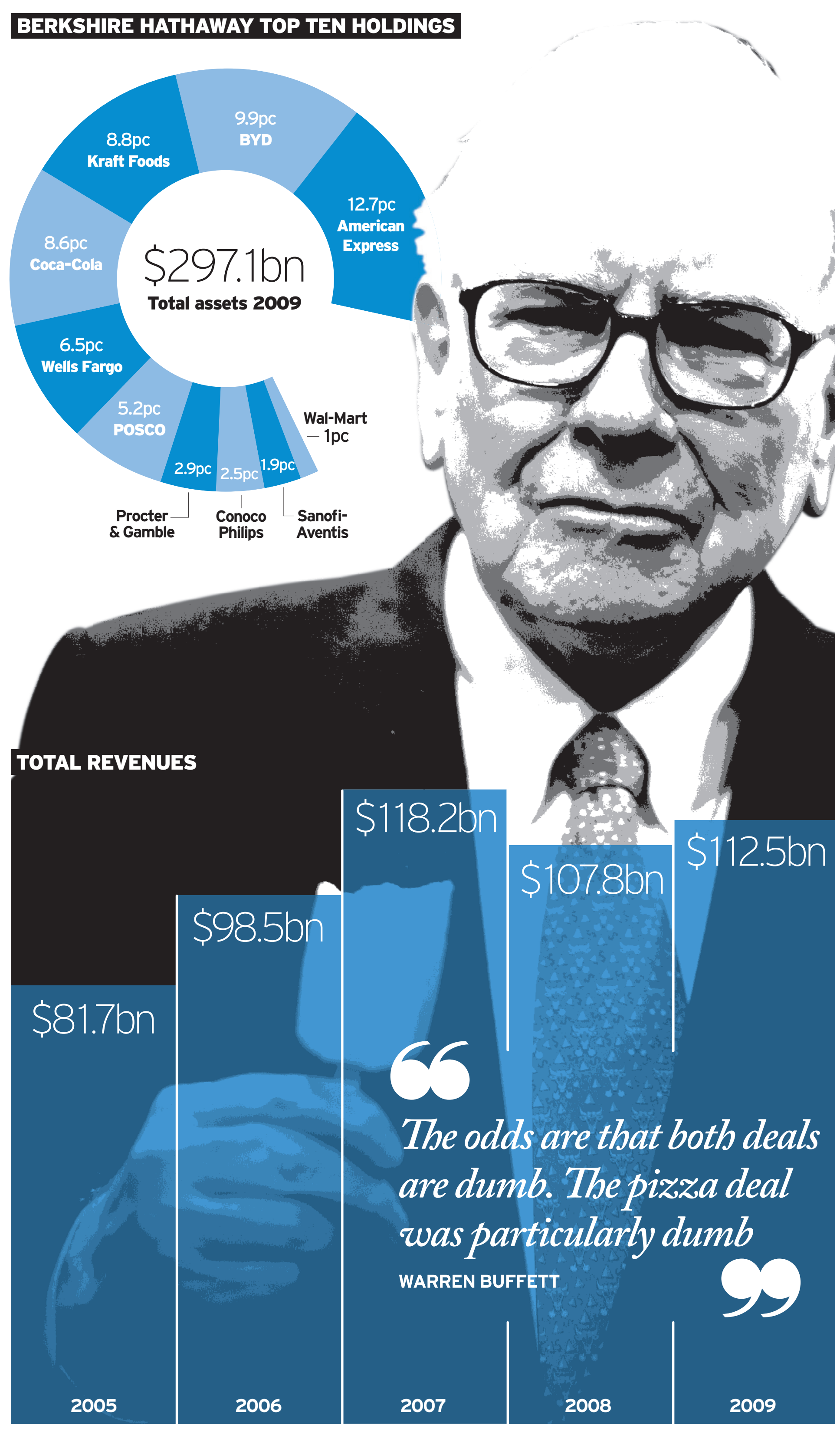
BP is attempting to re-activate the mechanism by remote control but, with oil leaking from three ruptures in the seabed installations, is struggling to find a solution. Lamar McKay, chairman and president of BP America, said that efforts to stop the oil flow were like performing "open-heart surgery at 5,000ft in the dark with robot-controlled submarines".

The rig was leased by BP from Transocean, the world's biggest drilling company and is understood to have passed three routine inspections earlier this year.

Six BP staff were among the rig survivors, and the company hopes they can provide further insight into reasons for the disaster.

BP shares have slumped 13pc since the accident on April 20.

ONLINE
For the latest news on the leak go to
telegraph.co.uk/finance



SOURCES: MORNINGSTAR | BERKSHIRE HATHAWAY

Buffett: Cadbury deal was 'dumb'

By James Quinn
in Omaha, Nebraska

WARREN Buffett, Kraft Foods' largest shareholder, has branded the food group's £11.9bn acquisition of Cadbury as "dumb."

In his most outspoken comments on the purchase of the British confectioner to date, Mr Buffett questioned the financial rationale behind Kraft's strategy, said he "hated" the Cadbury deal, and made pointed comments about chief executive Irene Rosenfeld's recent $26.3m (£17.2m) pay package.

Mr Buffett – known as the "Sage of Omaha" for his widely accepted investment wisdom – controls an 8.8pc stake in Kraft through Berkshire Hathaway, his investment conglomerate.

Having questioned the Cadbury purchase at the time the deal was still being negotiated in early January, he went one step further over the weekend. Speaking to some 40,000 Berkshire shareholders at the conglomerate's annual meeting in Omaha, Nebraska, Mr Buffett said Kraft ended up paying "a very fancy price" for the confectioner.

In response to a shareholder's question on capital allocation and Kraft, he admitted: "We've made our share of dumb deals at Berkshire so I've gotten more tolerant of other people." But he then spent approximately 10 minutes questioning the thinking behind the Cadbury deal, which was in part funded by the sale of Kraft's pizza business to Nestlé for $3.7bn just a few weeks earlier.

"The odds are that both deals are dumb. The pizza deal was particularly dumb," he said. "We expect to do some dumb things, it's just we get mad when others do dumb things."

Mr Buffett then explained that although the headline price for the deal was $3.7bn, the maker of the eponymous cheese slice and Oreo cookies actually received $2.5bn after debt and other items had been stripped out.

"This was a terribly tax-inefficient deal," he said, which he couldn't understand the Kraft board agreeing to given it had shown its "ability to understand" tax efficiency in the 2007 sale of its cereals business. He also questioned why Ms Rosenfeld would want to buy a business – in Cadbury – whose earnings in his view are growing slower than those of the business it sold.

"Irene [Rosenfeld] is a perfectly capable manager, and may know a lot of things about that business that I don't know," he said, but added that if he had been running Kraft the decisions would not have been made.

8.8pc
The size of Berkshire Hathaway's equity stake in Kraft Foods

In response to a question on Ms Rosenfeld's compensation for 2009 – a by-product of her Cadbury buy – Mr Buffett was equally as pointed. "We've got a compensation system at Berkshire which I regard as quite rational and there's a lot of companies in the US that have different compensation systems."

A Kraft spokesman said: "While we respect Mr Buffett as an investor, we strongly believe that the Cadbury acquisition and the sale of our pizza business were absolutely the right decisions for the company."

B3: Warren's world

FTSE miners to be hit by 40pc Australian 'super-tax'

By Richard Fletcher
City Editor

SHARES in London-listed miners – including BHP Billiton and Rio Tinto – are expected to fall sharply when trading resumes on Tuesday, following the introduction of a 40pc "super-tax" by the Australian government.

The government unveiled the new tax as part of a wider pre-election overhaul of the tax system. The government expects the new 40pc tax – which will be levied on all mining projects from July 2012 – to raise A$12bn (£7.2bn) in the first two years.

"I think it's clearly negative for the big miners. I expect them to be down fairly materially," said David Cassidy, chief strategist at UBS.

Craig Sainsbury, mining analyst at Citigroup, added: "The knee-jerk reaction is they'll get hit."

Mining companies warned that the proposed tax would make the Australian minerals sector the highest taxed in the world, eroding Australia's competitiveness, curtailing investment and limiting jobs growth.

Marius Kloppers, chief executive of BHP Billiton, said he was disappointed with the plan. "If implemented, these proposals seriously threaten Australia's competitiveness and jeopardise future investments," he argued.

Mr Kloppers said the changes would increase the group's effective tax rate on Australian earnings to 57pc from the current rate of around 43pc.

David Peever, Rio Tinto's managing director, Australia, said: "Taxing 40pc of profits... together with corporation tax, would make the Australian minerals sector the highest taxed in the world."

However, Kevin Rudd, Australia's prime minister, denied claims that the new mining tax would discourage investment. "This will use super-profits on resources owned by all Australians. This will help convert Australia's strong economic position today into enduring prosperity."

Ahead of Sunday's announcement, analysts had expected the new tax to be partly offset by changes to state taxation. No such changes were included in the proposal, although the government announced plans to set up a A$700m infrastructure fund, to help pay for roads, ports, railways and utilities for resource industries.

Also ahead of the announcement, Merrill Lynch estimated that the tax could cut BHP Billiton's earnings by 19pc and Rio Tinto's by 30pc.

Glencore eyes major Xstrata deal

By Richard Blackden

GLENCORE, the commodities trader, is examining a possible merger with Xstrata that would create one of the world's biggest mining and trading companies.

The Swiss-based trading company, which owns a 34.4pc stake in Xstrata, has Citigroup working on a proposal that could see Glencore join the London stock market through a reverse takeover.

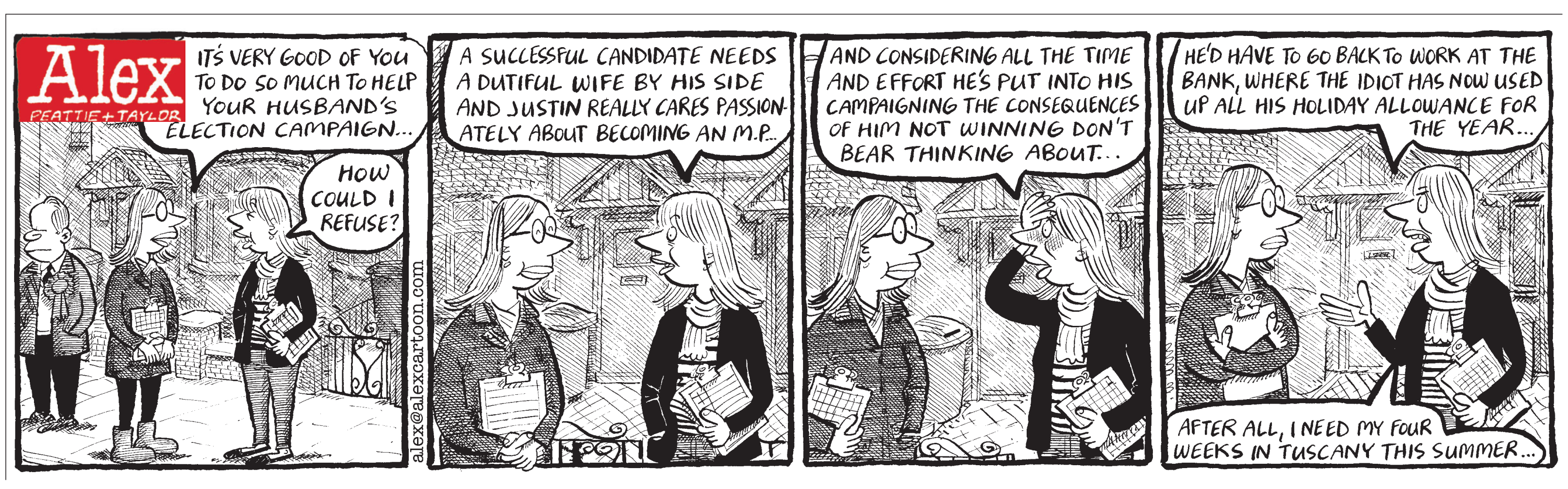

Glencore plans £55bn Xstrata merger

How The Sunday Telegraph broke the story

The future of the two companies has long been the subject of speculation in the City, which heightened after Glencore, which is owned by its staff, sold $2.2bn (£1.44bn) of convertible bonds late last year. The debt sale provided a watershed moment in the Swiss company's history, as it opened a path to Glencore's equity to outside investors for the first time.

At the time, Glencore said it could pursue a stock market listing and/or merger with an unnamed company in the next three years. Should the two companies combine, they would become one of the largest mining and commodities companies on

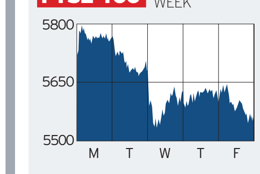
Continued on B3



THE WEEK STARTS HERE

MARKET OVERVIEW

FTSE 100 LAST WEEK



5553.29
-170.36 -2.97pc

2010 High	5825.10	
2010 Low	5060.92	
Yield	3.38pc	+0.13
P/E ratio	14.88	-1.73

The index fell for a third week amid concern over European debt

BIGGEST RISER
RANDGOLD RES
5585p
+310p (6pc)

BIGGEST FALLER
RIO TINTO
3379p
-361 (11pc)

DOW JONES LAST WEEK

11008.61
-195.67 -1.74pc

The Dow suffered as banking shares followed Goldman Sachs lower

LAST WEEK IN THE OTHER MARKETS

FTSE 250	10366.00	-235.54
FTSE All-share	2863.35	-83.05
Yield	3.24	+0.12
FTSE Eurotop 100	2236.06	-68.48
Nikkei	11057.40	+142.94
DJ Eurostox50	2816.86	-101.25
S&P 500	1186.69	-30.59
Nasdaq	2461.19	-68.96

COMMODITIES
WEEK-ON-WEEK CHANGE

GOLD
$1180.50 (£772)
+41.50 +3.64pc

BRENT CRUDE
$87.44 June
+0.19 +0.21pc

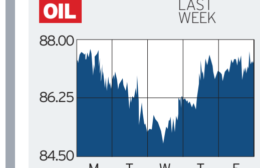
FULL LISTING **B3** »

CURRENCIES
FRIDAY CLOSE

	£ €	£ $
RATE	1.1515	1.5313
CHANGE	-0.20c	+0.36c

FULL LISTING **B8** »

OIL LAST WEEK



Brent crude edged higher on the week on hopes that a recovering US economy will sustain demand.

ONLINE

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